



## **SCA Unlisted Retail Fund 1**

ARSN: 606 126 934

**Financial Report**  
**For the year ended 30 June 2019**

SCA Unlisted Retail Fund 1 (SURF 1) is a Managed Investment Scheme. SCA Unlisted Retail Fund RE Limited (SURF RE) (ABN 42 604 416 284, AFSL 473459) is the Responsible Entity of SURF 1 and is incorporated and domiciled in Australia. The registered office of SURF RE is Level 5, 50 Pitt Street, Sydney, New South Wales.

# SCA Unlisted Retail Fund 1

## Directors' Report

For the year ended 30 June 2019

---

### Directors' Report

The Directors of SCA Unlisted Retail Fund RE Limited (SURF RE or the Company), the Responsible Entity for SCA Unlisted Retail Fund 1 (SURF 1 or Trust or Fund), present their report for the year ended 30 June 2019.

#### 1. Directors

The Directors of SURF RE at any time during the year and up to the date of this report are:

Mr Andrew Stevenson	Non-Executive Director (Chair)
Mr David Freiman	Non-Executive Director
Mr Anthony Mellowes	Executive Director
Mr Mark Fleming	Alternate Director for Mr Anthony Mellowes

#### 2. Company Secretary

The Company Secretaries of SURF RE at any time during the year and up to the date of this report are:

Mr Mark Lamb  
Ms Erica Rees

#### 3. Principal activities

The principal activity of the Fund during the year was the management of five retail properties. SURF 1 is an unlisted closed end unit trust.

#### 4. Financial and operational review

A summary of SURF 1's results for the year are set out below:

	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
	\$'000	\$'000
Net profit after income tax	945	6,107

Net profit after income tax measures profit/loss under Australian Accounting Standards (AASBs) and also complies with the International Financial Reporting Standards (IFRS).

#### Financial position

	30 June 2019	30 June 2018
Total assets (\$'000)	68,924	71,322
Net assets (\$'000)	38,324	40,117
Net assets per unit (\$ per unit)	1.18	1.23

#### Distributable earnings

The Responsible Entity considers Distributable Earnings to be an important indicator of the underlying earnings of SURF 1. Distributable Earnings are detailed below.

# SCA Unlisted Retail Fund 1

## Directors' Report

For the year ended 30 June 2019

	1 July 2018 to 30 June 2019 \$'000	1 July 2017 to 30 June 2018 \$'000
<b>Net profit after tax (statutory)</b>	<b>945</b>	<b>6,107</b>

### Adjustments to net profit after tax (statutory) to determine Distributable Earnings

Reverse movement in non cash items		
- Performance fee expense	(511)	532
- Amortisation of borrowing costs	31	31
- Amortisation of capitalised expenses	8	2
- Straight-lining of rental income	(88)	(146)
- Fair value adjustments on investment properties	2,734	(3,535)
- Fair value adjustments on derivatives	(171)	(200)
Capital payments	(54)	(19)
Distributable earnings available from prior periods	153	54
<b>Distributable Earnings</b>	<b>3,047</b>	<b>2,826</b>

## 5. Distributions

Distributions to unitholders recognised in the year by SURF 1 are:

30 June 2019 Quarter ended	Payment date	Cents per unit	\$
30 September 2018	16 October 2018	2.10	684,600
31 December 2018	21 January 2019	2.10	684,600
31 March 2019	23 April 2019	2.10	684,600
30 June 2019	31 July 2019 <sup>1</sup>	2.10	684,600
<b>Total distributions (Ordinary)</b>		<b>8.40</b>	<b>2,738,400</b>

<sup>1</sup> This distribution was declared on 18 June 2019 and the proposed payment date is 31 July 2019.

30 June 2018 Quarter ended	Payment date	Cents per unit	\$
30 September 2017	16 October 2017	2.05	668,300
31 December 2017	22 January 2018	2.05	668,300
31 March 2018	20 April 2018	2.05	668,300
30 June 2018	31 July 2018	2.05	668,300
<b>Total distributions (Ordinary)</b>		<b>8.20</b>	<b>2,673,200</b>

## 6. Significant changes in the state of affairs

The Fund's term is 5 years commencing on 1 October 2015 (refer to Product Disclosure Statement (PDS), dated 16 July 2015, section 6.3). As such, the Fund's term is expected to end in late 2020. Therefore, in accordance with the PDS, SURF RE has initiated a sales process for the SURF 1 portfolio prior to the expected Fund expiry. This process may result in properties being sold for the same, more or less than their respective book values and may take 6 - 18 months beyond the term of SURF 1. As part of this process, other options may be considered. A sale of property(s) may result in the proceeds being used to reduce debt, with any remainder being distributed to unitholders. As a result, the sale of one or more properties will have an impact on the distribution and capital return of SURF 1.

As the sale process may take some time to complete, the debt facility was also extended in June 2019 to expire in July 2021.

# SCA Unlisted Retail Fund 1

## Directors' Report

For the year ended 30 June 2019

---

As at 30 June 2019, the valuation of the Inverell property held by the Fund declined to \$14,000,000 from \$18,000,000 as at 30 June 2018. The valuation of the Inverell property was undertaken by an independent external valuer and the valuation took into consideration the decision by Woolworths Group Limited to close a number of Big W stores around Australia. This decision was announced on 1 April 2019, by Woolworths Group as part of a Big W network review update. A copy of this announcement is at [https://www.woolworthsgroup.com.au/icms\\_docs/195509\\_woolworths-group-market-update.pdf](https://www.woolworthsgroup.com.au/icms_docs/195509_woolworths-group-market-update.pdf).

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Trust during the year ended 30 June 2019.

### **7. Likely developments, key strategies and expected results of operations**

As noted above the Fund's term is 5 years commencing on 1 October 2015 (refer to Product Disclosure Statement (PDS), dated 16 July 2015, section 6.3). As such, the Fund's term is expected to end in late 2020. Therefore, in accordance with the PDS, SURF RE has initiated a sales process for the SURF 1 portfolio prior to the expected Fund expiry. This process may result in properties being sold for the same, more or less than their respective book values and may take 6 -18 months beyond the term of SURF 1. As part of this process, other options may be considered. A sale of property(s) may result in the proceeds being used to reduce debt, with any remainder being distributed to unitholders. As a result, the sale of one or more properties will have an impact on the distribution and capital return of SURF 1.

During July 2019 SURF RE entered into a conditional contract to sell Burwood for \$12,000,000 and a put option to sell Inverell for \$15,000,000. Burwood's carrying value at June 2019 was \$11,000,000 and was independently valued in July 2019 for \$11,000,000. Inverell's carrying value at 30 June 2019 was \$14,000,000 and was independently valued in June 2019 for \$14,000,000. The conditional contracts are cross conditional and both properties must at the election of SURF RE be sold as a package for the total consideration of \$27,000,000. The terms include a 10% deposit on each property. SURF RE has a put option on Inverell with an exercise period commencing in October 2019 and closing in November 2019. Therefore, the financial settlement can be deferred until November 2019. The contracted prices are in total \$2,000,000 above the total carrying values of Inverell and Burwood as at 30 June 2019 which are \$14,000,000 and \$11,000,000 respectively (\$25,000,000 in total). It is considered that the fair value of the two properties is most appropriately reflected at the reporting date with reference to the independent valuations obtained in June and July 2019 despite the conditional contracts being entered into after the balance date for the sale of these properties.

At the date of this report, and to the best of the Director's knowledge and belief, there are no other anticipated changes in the operations of SURF 1 which would have a material impact on the future results of SURF 1. Further information on likely developments in the operations and the expected results of operations has not been included in this report because the Directors believe it would result in unreasonable prejudice to SURF 1.

### **8. Units in the Trust**

The units on issue in the Trust are disclosed in note 8 of the financial statements. The number of ordinary units as at 30 June 2019 is 32,600,000 (30 June 2018: 32,600,000).

### **9. Environmental regulations**

The Directors are satisfied that adequate systems are in place for the management of SURF 1's environmental responsibility and compliance with various license requirements and regulations.

Further, the Directors are not aware of any material breaches to these requirements and, to the best of their knowledge all activities have been undertaken in compliance with environmental requirements.

### **10. Indemnification and insurance of Directors, Officers and Auditor**

The constitution of SURF 1 requires it to indemnify all current and former officers of the Trustee out of the property of the Trust against any liability incurred by the officer in or arising out of the conduct of the business of the Trust or arising out of the discharge of the duties of the officer. SURF 1's constitution also provides that in addition to

# SCA Unlisted Retail Fund 1

## Directors' Report

For the year ended 30 June 2019

---

any indemnity under any law, but subject to the Corporations Act 2001, the Responsible Entity has a right of indemnity out of the assets of the Trust on a full indemnity basis, in respect of any liability incurred by the Responsible Entity in properly performing any of its powers or duties in relation to the Fund.

The auditor of the Fund is not indemnified out of the assets of the Fund or the Responsible Entity.

A related party to SURF RE has paid insurance premiums in respect of Directors and Officers. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the liabilities covered by the insurance, the limit of the indemnity and the amount of the premium paid under the contract.

### **11. Fees paid to and interest held in the Trust by the Responsible Entity or its Associates**

Fees paid to the Responsible Entity and its associates out of the Trust property during the year are disclosed in note 12 of the financial statements. No fees were paid out of Trust property to the Directors of the Responsible Entity during the year. These costs are paid by SCA Property Group. The number of interests in the Trust issued to or held by the Responsible Entity or its associates during the year are disclosed in note 12 of the financial statements.

### **12. Matters Subsequent to the end of the financial year**

As noted above during July 2019 SURF RE entered into a conditional contract to sell Burwood for \$12,000,000 and a put option to sell Inverell for \$15,000,000. Burwood's carrying value at June 2019 was \$11,000,000 and was independently valued in July 2019 for \$11,000,000. Inverell's carrying value at 30 June 2019 was \$14,000,000 and was independently valued in June 2019 for \$14,000,000. The conditional contracts are cross conditional and both properties must at the election of SURF RE be sold as a package for the total consideration of \$27,000,000. The terms include a 10% deposit on each property. SURF RE has a put option on Inverell with an exercise period commencing in October 2019 and closing in November 2019. Therefore, the financial settlement can be deferred until November 2019. The contracted prices are in total \$2,000,000 above the total carrying values of Inverell and Burwood as at 30 June 2019 which are \$14,000,000 and \$11,000,000 respectively (\$25,000,000 in total). It is considered that the fair value of the two properties is most appropriately reflected at the reporting date with reference to the independent valuations obtained in June and July 2019 despite the conditional contracts being entered into after the balance date for the sale of these properties.

The Directors are not aware of any other matters or circumstance that have arisen since 30 June 2019 that have significantly affected or may significantly affect the operations of SURF 1, the result of those operations, or state of affairs in future financial periods.

### **13. Auditor's Independence declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

### **14. Audit and non-audit fees**

Details of the amounts paid or payable to the auditor for audit and non-audit services provided are detailed in note 15 of the financial statements.

### **15. Rounding of amounts to the nearest thousand dollars**

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Trust under ASIC Corporations (Rounding in the Financial Directors' Reports) Instrument 2016/191. The Trust is an entity to which this Legislative Instrument applies.

**SCA Unlisted Retail Fund 1**  
**Directors' Report**  
For the year ended 30 June 2019

---

This report is made in accordance with a resolution of the Directors.

  
Director  
Sydney  
23 July 2019

**DECLARATION OF INDEPENDENCE BY IAN HOOPER TO THE DIRECTORS OF SCA UNLISTED RETAIL FUND RE LIMITED, AS RESPONSIBLE ENTITY FOR SCA UNLISTED RETAIL FUND 1**

As lead auditor of SCA Unlisted Retail Fund 1 for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



Ian Hooper  
Partner

**BDO East Coast Partnership**

Sydney, 23 July 2019

# SCA Unlisted Retail Fund 1

## Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	Notes	1 July 2018 to 30 June 2019 \$'000	1 July 2017 to 30 June 2018 \$'000
<b>Revenue</b>			
Rental income		5,388	5,209
		<u>5,388</u>	<u>5,209</u>
<b>Expenses</b>			
Administration costs		(114)	(110)
Base management fees	12	(175)	(172)
Investment management fees	12	(314)	(310)
Property expenses		(636)	(557)
		<u>(1,239)</u>	<u>(1,149)</u>
Unrealised fair value movements			
- Investment properties	3	(2,734)	3,535
- Derivatives		171	200
Performance fee expense	12	511	(532)
		<u>(2,052)</u>	<u>3,203</u>
Earnings before interest and tax (EBIT)		<u>2,097</u>	<u>7,263</u>
Interest income		5	3
Finance costs	4	(1,157)	(1,159)
		<u>(1,152)</u>	<u>(1,156)</u>
<b>Profit before income tax</b>		<u>945</u>	<u>6,107</u>
Income tax expense	2(f)	-	-
<b>Profit after income tax expense</b>		<u>945</u>	<u>6,107</u>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>945</u>	<u>6,107</u>

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# SCA Unlisted Retail Fund 1

## Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019 \$'000	30 June 2018 \$'000
<b>Current assets</b>			
Cash and cash equivalents		299	47
Trade and other receivables	5	225	275
Investment properties held for sale	3	68,400	-
<b>Total current assets</b>		<u>68,924</u>	<u>322</u>
<b>Non-current assets</b>			
Investment properties	3	-	71,000
<b>Total non-current assets</b>		<u>-</u>	<u>71,000</u>
<b>Total assets</b>		<u>68,924</u>	<u>71,322</u>
<b>Current liabilities</b>			
Trade and other payables		504	444
Distribution payable	13	685	668
Derivative financial instrument	6	-	171
<b>Total current liabilities</b>		<u>1,189</u>	<u>1,283</u>
<b>Non-current liabilities</b>			
Performance fee liability	12	379	890
Borrowing	7	29,032	29,032
<b>Total non-current liabilities</b>		<u>29,411</u>	<u>29,922</u>
<b>Total liabilities</b>		<u>30,600</u>	<u>31,205</u>
<b>Net assets</b>		<u>38,324</u>	<u>40,117</u>
<b>Equity</b>			
Contributed equity	8	32,356	32,356
Accumulated profit		5,968	7,761
<b>Total equity</b>		<u>38,324</u>	<u>40,117</u>

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*

# SCA Unlisted Retail Fund 1

## Statement of Changes in Equity

For the year ended 30 June 2019

	Notes	Contributed equity \$'000	Accumulated profit \$'000	Total equity \$'000
<b>Balance at 1 July 2018</b>		<b>32,356</b>	<b>7,761</b>	<b>40,117</b>
Profit after income tax expense		-	945	945
Other comprehensive income		-	-	-
Total comprehensive income		-	945	945
Distributions declared	13	-	(2,738)	(2,738)
<b>Balance at 30 June 2019</b>		<b>32,356</b>	<b>5,968</b>	<b>38,324</b>
<b>Balance at 1 July 2017</b>		<b>32,356</b>	<b>4,327</b>	<b>36,683</b>
Profit after income tax expense		-	6,107	6,107
Other comprehensive income		-	-	-
Total comprehensive income		-	6,107	6,107
Distributions declared	13	-	(2,673)	(2,673)
<b>Balance at 30 June 2018</b>		<b>32,356</b>	<b>7,761</b>	<b>40,117</b>

*The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

# SCA Unlisted Retail Fund 1

## Statement of Cash Flows

For the year ended 30 June 2019

	1 July 2018	1 July 2017
Notes	to 30 June 2019	to 30 June 2018
	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Rental revenue received (inclusive of GST)	5,515	5,175
Property expenses paid (inclusive of GST)	(703)	(613)
Interest received	5	3
Finance and borrowing costs paid	(1,175)	(1,161)
Base management fee paid (inclusive of GST)	(193)	(189)
Investment management fee paid (inclusive of GST)	(347)	(340)
Administration costs paid (inclusive of GST)	(75)	(109)
<b>Net cash flows from operating activities</b>	10 <u>3,027</u>	<u>2,766</u>
<b>Cash flows from investing activities</b>		
Payments for capital improvements (inclusive of GST)	(53)	(21)
<b>Net cash flows used in investing activities</b>	<u>(53)</u>	<u>(21)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	7 <u>975</u>	1,625
Repayment of borrowings	7 <u>(975)</u>	(1,925)
Distributions paid to unitholders	13 <u>(2,722)</u>	(2,670)
<b>Net cash flows used in financing activities</b>	<u>(2,722)</u>	<u>(2,970)</u>
Net movement in cash and cash equivalents held	252	(225)
Cash and cash equivalents at the beginning of the year or period	47	272
<b>Cash and cash equivalents at the end of the year or period</b>	<u>299</u>	<u>47</u>

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

---

### 1. Corporate information

SCA Unlisted Retail Fund 1 (SURF 1 or Trust or Fund) was formed on 5 June 2015 and was registered as a Managed Investment Scheme with the Australian Securities & Investments Commission on 9 June 2015. SURF 1 is an unlisted closed end unit trust constituted in Australia. On 1 October 2015 SURF 1 commenced activities with the acquisition of five retail properties in metropolitan and regional New South Wales.

The nature of its operations and principal activity are described in the Directors' Report.

The financial statements are presented in Australian dollars, which is SURF 1's functional and presentation currency.

SCA Unlisted Retail Fund RE Limited (SURF RE or the Responsible Entity) is the Responsible Entity of SURF 1. SURF RE is a public company incorporated in Australia. The address of its registered office and principal place of business is:

Level 5, 50 Pitt Street  
Sydney NSW 2000

SURF RE is a wholly owned subsidiary of Shopping Centres Australasia (SCA Property Group). SCA Property Group is listed on the Australian Stock Exchange (ASX) (ASX Code: SCP).

SURF RE has appointed The Trust Company (Australia) Limited to act as custodian of SURF 1's assets. The custodian must only act on instructions from the Responsible Entity.

The Directors of the Responsible Entity have authorised the Financial Report for issue on 23 July 2019. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

The principal accounting policies which have been adopted in the preparation of these financial statements have been set out below. These policies have been consistently applied during the year and the comparative period.

### 2. Significant accounting policies

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

SURF 1 is a for-profit unit trust for the purpose of preparing the financial statements. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

#### *Historical cost convention*

The financial statements have been prepared on the basis of historical cost, except for, where applicable, the revaluation of investment properties, derivative financial instruments and performance fee liability.

#### *Going concern*

The Financial Statements have been prepared on the going concern basis. In preparing the Financial Statements the Directors note the Trust is in a net current asset deficiency position (excluding Investment properties held for sale) due primarily to the provision for distribution and minimal cash and cash equivalents as it is the practice to use surplus cash to reduce debt drawn on the revolving debt facility. As at 30 June 2019 the Trust has the ability to drawdown funds of \$1,350,000 (30 June 2018: \$1,350,000) on the debt facility which is greater than the current asset deficiency.

During June 2019, SURF RE has initiated an orderly sales process for the Properties of SURF 1. The Director's anticipate that this process may take 6 to 18 months and may result in a property (or properties) being sold for the

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

---

same or more or less than their respective book value. As part of this process other options may be considered. As such the Financial Statements being prepared on the going concern basis is appropriate.

### *Rounding*

The Fund is a kind referred to in Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

### **New and amended accounting standards and interpretations**

SURF 1 has adopted AASB 15 Revenue from Contracts with Customers (AASB 15), AASB 9 Financial Instruments (AASB 9) along with a number of other new standards effective from the period beginning on or after 1 January 2018. AASB 16 Leases (AASB 16) has been early adopted. The adoption of these accounting standards did not have a material effect on the Financial Report.

### **Application of new and revised Accounting Standards**

The accounting policies adopted by SURF 1 are consistent with those of the previous financial year with the exception of the adoption of AASB 9, AASB 15, the early adoption of AASB 16, and other new and amended standards and interpretations commencing 1 January 2018 which have been adopted where applicable.

In preparing the Financial Report to reflect the transition to the new standards, SURF 1 has applied the following approach:

- Comparative financial information has not been restated to reflect differences that may give rise to adjustments to equity on transition to AASB 9;
- AASB 15 has been adopted using the modified retrospective approach whereby comparative financial information is not restated for open revenue contracts at the date of transition; and
- SURF 1 transition to AASB 16 has been applied using the modified retrospective approach, using certain practical expedients.

### **New and revised Accounting Standards not yet effective**

SURF 1 does not expect that the adoption of any Australian Accounting Standards that is issued but not yet effective or adopted will have a material impact on the financial statements of SURF 1 in future periods.

### **AASB 9 Financial Instruments**

This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

#### *Classification*

On adoption, SURF 1 classified financial assets as either:

- Those measured at fair value, with adjustments to Fair Value through Other Comprehensive Income (FVOCI) or through Profit or Loss (FVTPL); and
- Those measured at amortised cost.

These changes to the recognition and classification of financial instruments under AASB 9 have not resulted in an adjustment to opening retained earnings at the date of transition to AASB 9.

#### *Impairment of financial assets*

SURF 1's receivable balances are subject to AASB 9's new expected credit loss (ECL) model for recognising and measuring impairment of financial assets.

SURF 1 has adopted the simplified approach for all trade and other receivables that do not have a significant financing component. For these receivables, SURF 1 analyses the age of outstanding balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

---

The loss allowance to be recognised against outstanding receivables is not material and has not resulted in an adjustment to opening accumulated profit on transition.

### *Hedge accounting*

The new general hedge accounting model in AASB 9 has no impact on SURF 1 derivatives as the Fund has not historically applied hedge accounting.

### **AASB 15 Revenue from Contracts with Customers**

AASB 15 replaces the existing guidance for revenue and contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

Under AASB 15 revenue is recognised over time if:

- The customer simultaneously receives and consumes the benefits;
- The customer controls the assets as the entity creates or enhances it; or
- The seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria are not met, revenue is recognised at a point in time.

AASB 15 applies to all contracts with customers except leases, financial instruments and insurance contracts. It requires reporting entities to provide users of financial statements with more information and relevant disclosures. The rental revenue generated by the SURF 1 portfolio of leases with tenants of the Fund's investment properties will not change as this is accounted for under AASB 16.

Therefore lease income continues to be recognised on a straight line basis over the lease term.

From management's assessment of when performance obligations are satisfied, there is no significant change in the timing of revenue recognition when comparing the previous accounting policies to those under AASB15. The table below summarises in more detail the changes including to terminology and timing of revenue recognition required by AASB 15 in relation to SURF 1.

Type of revenue	Description	Previous revenue recognition policy	Revenue recognition policy under AASB 15
Recoveries revenue	SURF 1 recovers the costs associated with general building and tenancy operation from lessees in accordance with specific clauses within lease agreements. These are invoiced periodically (typically monthly) based on an annual estimate. The consideration is due shortly after invoice date (typically 30 days). Should any adjustment be required based on actual costs incurred this is recognised in the statement of profit and loss within that reporting period and billed annually.	Accruals basis as the services were rendered	Over time as the performance obligation is satisfied
Recharge revenue	SURF 1 recovers costs for any additional specific services requested by the lessee under the lease agreement. These costs are recovered in accordance with specific clauses within the lease agreements. The lessee is typically invoiced on a monthly basis as the services are provided. The lessee is invoiced periodically or upon completion where applicable. Consideration is due shortly after the invoice date.	Revenue was recognised when the costs were incurred	Point in time when the performance obligation is satisfied

### **AASB 16 Leases**

AASB 16 requires lessees to recognise Right-of-Use assets and liabilities by applying an 'on-balance sheet' accounting method, while leaving the accounting for lessors largely unchanged from previous standards. This has created a right of use asset and lease liability.

On the transition date of 1 July 2018, the fund was not a lessee, and therefore the early adoption of AASB 16 has not resulted in an adjustment to opening accumulated profit on transition.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

---

### **(b) Significant accounting estimates, judgements and assumptions**

The preparation of financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant judgements and estimates used in the preparation of these financial statements are outlined below:

#### *Estimate - Valuation of investment properties*

Critical judgements are made by the Directors in respect of the fair value of investment properties including properties that are classified as assets held for sale. The fair value of these investments is reviewed regularly by management with reference to independent property valuations, recent open market transactions and market conditions existing at the reporting date, using generally accepted market practices. The major critical assumptions underlying estimates of fair values are those relating to the capitalisation rate and the discount rate adopted for each property.

Other assumptions include retail trading environment, gross market rent, net market rent, average market rental growth, operating expenses, capital expenditure and terminal yield.

If there is any change in the assumptions used or economic conditions, a change in the fair value of the investment properties may occur. See further disclosure regarding assumptions used in valuation of investment properties in note 3.

#### *Estimate - Valuation of derivative financial instruments*

The fair value of derivative assets and liabilities are based on assumptions of future events and involve significant estimates. The value of derivatives may differ in future reporting periods due to the passing of time and / or changes in market rates including interest rates, foreign exchange rates and market volatility.

#### *Estimate - Valuation of performance fee liability*

The value of the performance fee liability is calculated at each reporting date using detailed calculations. This includes considering the estimated IRR over the life of the Fund and the present value of the estimated liability. See further disclosure regarding assumptions used in the valuation of performance fee liability in note 12(f).

### **(c) Revenue recognition**

Rental income from investment properties is accounted for on a straight line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned. If not received at balance sheet date, revenue is reflected in the statement of financial position as receivable and carried at its recoverable value. Recoveries from tenants are recognised as income in the year the applicable costs are accrued.

Certain tenant allowances that are classified as lease incentives are recorded as part of investment properties and amortised over the term of the lease. The amortisation is recorded against property income.

All other revenues are recognised when control of the underlying goods or services is transferred to the customer over time or at a point in time. Revenue is recognised over time if:

- The customer simultaneously receives and consumes the benefits;
- The customer controls the assets as the entity creates or enhances it; or
- The Funds's performance does not create an asset for which the Fund has an alternative use and there is a right to payment for performance to date.

Where the above criteria are not met, revenue is recognised at a point in time.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

---

### **(d) Expenses**

All expenses are brought to account on an accruals basis.

Under the Constitution of SURF 1, all expenses reasonably and properly incurred by SURF RE as Responsible Entity in connection with the Trust or in performing its obligations under the Trust's Constitution are payable or can be reimbursed out of SURF 1.

### **(e) Finance costs**

Finance costs include interest payable on borrowings, payments on derivatives and amortisation of ancillary costs incurred in connection with arrangement of borrowings. Finance costs are expensed as incurred.

### **(f) Taxation**

Under current income tax legislation, SURF 1 is not liable for income tax, provided that the taxable income is fully distributed to unitholders each year. SURF 1 fully distributes its taxable income, calculated in accordance with the Trust Constitution and applicable legislation, to unit holders who are presently entitled to income under the constitution.

### **(g) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST (or equivalent tax in overseas locations) except where the GST incurred on purchases of goods and services is not recoverable from the tax authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amounts of GST included. The net amount of GST receivable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

### **(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand and short term deposits with an original maturity of 90 days or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **(i) Trade and other receivables**

Trade and other receivables are carried at original invoice amount, less provision for doubtful debts, and are usually due within 30 days.

Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are determined to be uncollectable are written off when identified.

The provision for expected credit loss is recognised by applying the expected credit loss (ECL) model whereby the age of outstanding balances is analysed and the provision is determined by applying historical default percentages adjusted for other current observable data.

### **(j) Investment properties**

Investment properties comprise investment interest in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income, including properties that are under construction for future use as investment properties.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

---

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are stated at fair value. Fair value of investment properties is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Gains and losses arising from changes in the fair values of investment properties are recognised in profit and loss in the period in which they arise.

At each reporting date, the carrying values of the investment properties are assessed by the Directors and where the carrying value differs from the Directors' assessment of fair value, an adjustment to the carrying value is recorded as appropriate.

The Directors' assessment of fair value of each investment property takes into account latest independent valuations, with updates taking into account any changes in estimated yield, underlying income and valuations of comparable properties. In determining the fair value, the capitalisation of net income method and / or the discounting of future net cash flows to their present value have been used, which are based upon assumptions and judgements in relation to future rental income, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties.

Incentives such as cash, rent-free periods, lessee or lessor owned fit outs may be provided to lessees to enter into an operating lease. Leasing fees may also be paid for the negotiation of leases. These incentives and lease fees are capitalised to the investment property and are amortised on a straight-line basis over the lesser of the term of the lease and the useful life of the fit out, as a reduction of rental income. The carrying amounts of the lease incentives and leasing fees are reflected in the fair value of investment properties.

### **(k) Derivatives**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. Changes in the fair value of any derivative instruments are recognised immediately in the statement of profit or loss and other comprehensive income.

### **(l) Recoverable amount of assets**

At each reporting date, an assessment is made as to whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the recoverable amount is estimated and if the carrying amount of that asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

### **(m) Trade and other payables**

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted.

### *Distribution*

Distributions payable are recognised in the reporting period in which they are declared, determined or recommended by the Directors. Where such distributions have not been paid at reporting date they are recognised as a distribution payable.

The Trust distributes its distributable income, in accordance with the Trust's Constitution, to unitholders by cash or reinvestment. All distributions will be paid out of retained earnings / accumulated losses, whether they are capital or income in nature from a tax perspective.

### **(n) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are deferred and expensed over the term of the respective agreement.

### **(o) Performance fee liability**

The Investment Manager (Shopping Centres Australasia Property Operations Pty Ltd, a related party to the Responsible Entity) is entitled to a performance fee of 20% of the portion of outperformance of SURF 1 over an

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

---

IRR of 10%. The performance fee calculation period is from 1 October 2015 (1 October 2015 was the date SURF 1 commenced operation) to the first performance fee calculation date. The performance fee calculation dates include the termination of SURF 1 or the sale of the last property of SURF 1. A performance fee liability is recognised when the amount can be reliably measured.

The performance fee liability recognised will continue to be remeasured at each reporting date. Any revision to the performance fee will be adjusted through the Statement of Profit or Loss and Other Comprehensive Income for that period. Refer also note 2(b).

### **(p) Contributed equity**

Applications received for units in the Trust are recognised as contributed equity at the fair value of the consideration received. Any transaction costs arising on the issue of ordinary units are recognised in equity as a reduction of the proceeds received.

### **(q) Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in a normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in a normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

### **(r) Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

### 3. Investment properties

	30 June 2019	30 June 2018
	\$'000	\$'000
<b>Movement in total investment properties</b>		
Opening balance	71,000	67,300
Straight-lining of rental income net of amortisation	88	146
Additions to investment properties net of amortisation	46	19
Fair value movement on investment properties	(2,734)	3,535
Reclassification to Investment properties held for sale	(68,400)	-
Closing balance	-	71,000

  

	30 June 2019	30 June 2018
	\$'000	\$'000
<b>Investment properties held for sale</b>	68,400	-
	68,400	-

As at 30 June 2019 Investment properties have been reclassified to Investment properties held for sale and form part of Current assets in the Statement of Financial Position.

Property details	Cost <sup>2</sup> \$'000	Book value cap rate <sup>1</sup> 30 June 2019	Book value 30 June 2019 \$'000	Book value 30 June 2018 \$'000
Burwood	8,600	5.00%	11,000	11,000
Fairfield Heights	18,000	5.50%	23,800	23,000
Katoomba	6,700	5.75%	7,700	7,500
Griffith North	9,200	5.75%	11,900	11,500
Inverell	18,400	7.50%	14,000	18,000
Total Investment Properties <sup>3</sup>	60,900		68,400	71,000

1 Capitalisation rate (or cap rate) is an approximation of the ratio between the net operating income produced by an investment property and its fair value. This excludes consideration of costs of acquisition or disposal.

2 The cost disclosed is the same as the external valuation of these properties as at June 2015.

3 At 30 June 2019 Investment Properties have been reclassified to Investment properties held for sale and form part of Current assets in the Statement of Financial Position.

#### Valuation process

All properties are required to be internally valued every six months with the exception of those valued externally. All properties are required to be externally valued at least every 3 years.

The internal valuations are performed by utilising the information from a combination of existing leases and forecasting tools. Appropriate capitalisation rate, terminal yield and discount rates based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation based valuation and a discounted cash flow valuation. If there are any changes in these assumptions or economic conditions, the fair value of the investment properties may differ.

The internal valuations are prepared by the Investment Manager. The Investment Manager is Shopping Centres Australasia Property Operations Pty Ltd, a related party to the Responsible Entity. The Investment Manager recommends each property's valuation to the Directors in accordance with the Fund's internal valuation policy. The valuation of the investment properties are Director valuations as at 30 June 2019 based on internal valuations prepared by the Investment Manager with the exception of the Inverell property, which was based on an independent valuation.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

### Fair value measurement, valuation technique and inputs

The investment properties fair values presented are based on market values, which are derived having regard to the capitalisation method, the discounted cash flow method and where applicable comparable market transactions.

#### Capitalisation method

Capitalisation rate (or cap rate) is an approximation of the ratio between the net operating income produced by an investment property and its fair value. This excludes consideration of costs of acquisition or disposal. The net operating income is determined considering the estimated gross passing income after adjustment for anticipated operating costs, potential future income from existing vacancies and an on-going vacancy and bad debt allowance. This produces a net income on a fully leased basis which is capitalised in perpetuity from the valuation date at an appropriate investment yield. The adopted percentage rate investment yield reflects the capitalisation rate (cap rate) and includes consideration of a number of other factors including the property type, location and tenancy profile together with market sales.

#### Discounted cash flows (DCF)

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate discount rate is applied to establish the present value of the income stream associated with the real property. The discount rate is the rate of return used to convert a monetary sum, payable or receivable in the future, into present value. The rate is determined with regards to market evidence and the prior independent valuation.

Fair value is assessed with reference to reliable estimates of future cash flows and the associated risk profile.

The table below summarises the valuation techniques used and the key input including the range of key inputs used to measure fair value under the capitalisation and discounted cash flows methods.

Category	Fair value hierarchy	Carrying value 30 June 2019 \$'000	Valuation technique	Key inputs used to measure fair value	Range of unobservable inputs
Investment Properties	Level 3	68,400	Income capitalisation and discounted cash flow	Cap rate Discount rate	5.00%-7.50% 5.75%-7.75%

All property investments are categorised as level 3 in the fair value hierarchy (refer note 11 for additional information in relation to the fair value hierarchy). There were no transfers between hierarchy levels.

### Sensitivity information

The key inputs to measure fair value of investment properties are disclosed below along with sensitivity to a significant increase or decrease. The following sensitivity to significant inputs applies to investment properties (refer note 2(r)).

Significant Inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Capitalisation rate	Decrease	Increase
Discount rate	Decrease	Increase

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

### **Sensitivity analysis**

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. The impact on the fair value of an increase in the net market rent could potentially offset the impact of an increase (softening) in the adopted capitalisation rate. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate would magnify the impact to the fair value.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate at which the terminal value is discounted to the present value. The impact on the fair value of an increase (softening) in the adopted discount rate could potentially offset the impact of a decrease (tightening) in the adopted terminal yield. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield would magnify the impact to the fair value.

Other inputs or factors also impact a valuation. These factors are many and include market rental reversion, current rental, property expenses, capital expenditure, and tenant incentives.

The Investment Manager has considered these factors and believes the most significant input to fair value of investment properties at balance date is the capitalisation rate as the capitalisation rate is in line with the Investment Manager's understanding of the market practice at which the price is determined for similar properties. Notwithstanding that capitalisation rate is the most significant input, movements in one or more of other factors above may impact the valuation.

### **Sensitivity analysis – capitalisation rate**

A sensitivity analysis of the impact on the investment property valuations of movements in the capitalisation rate is disclosed below as the capitalisation rate method is the primary method for conducting the valuation. While other factors do also impact a valuation, at the current time, the Investment Manager considers that the valuations are most sensitive to movements in the capitalisation rate.

The following sensitivity analysis shows the effect on profit/loss after tax and on equity of a 25 basis points (bps) increase/decrease in capitalisation rates at balance sheet date with all other variables held constant.

	Profit / (loss) after tax		Equity	
	25 bps increase \$'000	25 bps decrease \$'000	25 bps increase \$'000	25 bps decrease \$'000
<b>30 June 2019</b>				
Investment Properties	(2,448)	2,636	(2,448)	2,636
<b>30 June 2018</b>				
Investment Properties	(2,745)	2,969	(2,745)	2,969

### **4. Finance costs**

	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
	\$'000	\$'000
Interest expense on borrowings including swap costs	1,126	1,128
Amortisation of establishment fees	31	31
	<b>1,157</b>	<b>1,159</b>

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

### 5. Trade and other receivables

Trade and other receivables relate predominantly to rent receivable. As at 30 June 2019 and 30 June 2018 respectively there was no significant rent receivable greater than 30 days past due.

### 6. Derivative financial instruments

The fair value of interest rate derivatives are determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observable market rates.

The following table represents financial liabilities that were measured and recognised at fair value at reporting date:

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Current liabilities</b>		
Interest rate swap	-	171

SURF 1 had entered into an interest rate swap to fix financing costs for the majority of the loan facility amount for approximately the first 4 years of the 5 year term of SURF 1. The interest rate swap expired in June 2019 and had a face value of \$28,000,000. As at 30 June 2019 (30 June 2018: \$171,000) there was no swap in place and there was no applicable market value as at 30 June 2019.

Movements in the market value of the interest rate swaps are included in the Fund's profit and loss through changes in fair value.

The three different fair value measurement levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs from the assets or liability that are not based on observable market data (unobservable inputs).

Interest rate derivatives are financial instruments that use valuation techniques with observable market data and are included as Level 2 in the hierarchy above.

SURF 1 does not have any Level 3 financial instruments. There were no transfers between levels during the year.

### 7. Borrowing

Unrestricted access was available at the reporting date to the secured bank loan. Details of this loan are below:

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Non-current liabilities</b>		
Bank loan	29,100	29,100
Establishment fees	(68)	(68)
<b>Total non-current borrowings</b>	<b>29,032</b>	<b>29,032</b>

  

	30 June 2019 \$'000	30 June 2018 \$'000
Total bank loan facility limit	30,450	30,450
Less: Amounts drawn at the reporting date	(29,100)	(29,100)
<b>Net borrowing facility available</b>	<b>1,350</b>	<b>1,350</b>

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

A major Australian bank has provided SURF 1 with a debt facility for the purpose of partially funding the acquisition of the property portfolio. The secured debt facility is revolving and multi-purpose. The loan is secured by that bank over the property of the Fund. The loan limit is \$30,450,000 and the debt facility was extended during the year ended 30 June 2019 to expire in July 2021.

### Debt Covenants

The Fund is required to comply with certain financial covenants and obligations in respect of the secured debt facility. The major financial covenants and obligations can be summarised as follows:

- (a) Interest Cover Ratio (ICR): is at least 1.75 times. ICR is defined as being EBITDA (excluding non-recurring amounts and non-cash amounts) to net interest expense.
- (b) Loan to Value Ratio (LVR): is not more than 60%. LVR is defined as being based on the amounts drawn as a percentage of the most recent external property valuations.

The Fund was in compliance with its financial covenants and other obligations for the year ended and as at 30 June 2019.

### 8. Contributed equity

	30 June 2019	30 June 2018
	\$'000	\$'000
Units fully paid 32,600,000	32,600	32,600
Less: equity raising costs	(244)	(244)
Closing balance	<u>32,356</u>	<u>32,356</u>

The offer to invest in SURF 1 opened on 16 July 2015 and closed on 30 September 2015. 32,600,000 units in SURF 1 were issued and allocated on 1 October 2015 at \$1.00 per unit raising \$32,600,000 in equity.

### 9. Operating leases

All investment properties owned by the Trust (detailed in note 3) are subject to operating leases. The investment properties are leased to anchor tenants under long term leases with rentals payable monthly. Other lease terms can vary for each lease.

The main tenant of the five properties is Woolworths Limited trading as either Woolworths supermarkets, Dan Murphy's or Big W. The rent paid (excluding outgoings) by the single largest customer (Woolworths Limited) is \$4,650,000 (or greater than 90% of the total rent). It is noted that two of the properties trade as Dan Murphy's and Woolworths Group announced in July 2019 that they have the intention to pursue a separation of the business to be known as Endeavour Group Limited through a demerger or other value-accretive alternative. This business is intended to include Dan Murphys'.

For the Woolworths Limited leases the key lease terms are as follows:

Property	Tenancy	Lease expiry date	Remaining lease options
Fairfield Heights	Woolworths Limited trading as Woolworths Supermarkets	July 2033	4 * 10 year options
Griffith North	Woolworths Limited trading as Woolworths Supermarkets	October 2027	4 * 10 year options
Inverell	Woolworths Limited trading as BIG W	January 2028	4 * 10 year options

Additionally the base rent for the tenancies above is subject to fixed periodic increases of 5% every five years.

For the Dan Murphy's tenancies, the leases expire in late 2027 with 4 \* 10 year options.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

### For the year ended 30 June 2019

All leases the Fund has with Woolworths Limited also include provision for additional rent in the form of sales turnover rent. Where sales turnover rent applies, it is payable annually in arrears where the sum of the initial rent and the turnover rent percentage amount for a year exceeds the sum of the base rent. No turnover rent has been received or was paid or is payable by Woolworths Limited for the period ended 30 June 2019.

For other tenancies lease terms would commonly be for shorter periods such as five years with provisions for annual reviews which typically comprise fixed percentage increases, CPI based increases or market reviews. Optional lease extensions exercisable by the tenant are also relatively common. Specialty leases incorporate provisions for reporting of sales turnover and may include payment of turnover rent percentage rental if appropriate.

No turnover rent was received for the period ended 30 June 2019 for other tenancy leases.

Minimum lease payments receivable (excluding outgoings) under non-cancellable operating leases of investment properties are as follows:

	30 June 2019	30 June 2018
	\$'000	\$'000
Within one year	5,034	4,999
Between one and five years	19,946	19,734
After five years	25,140	30,146
	<u>50,120</u>	<u>54,879</u>

#### 10. Notes to the statement of cash flows

Reconciliation of profit to net cash flows from operating activities is as follows:

	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
	\$'000	\$'000
Net profit after income tax	945	6,107
<i>Non-cash flows</i>		
- Fair value movement on investment properties	2,734	(3,535)
- Fair value movement on derivative financial instrument	(171)	(200)
- Straight lining of rental income	(88)	(146)
- Performance fee expense	(511)	532
- Amortisation on capitalised expenses	8	2
<i>Changes in assets / liabilities</i>		
Movement in borrowings - net amortisation of establishment fees	-	31
Movement in trade and other receivables	50	338
Movement in trade and other payables	60	(363)
Net cash flows from operating activities	<u>3,027</u>	<u>2,766</u>

#### 11. Financial instruments

##### Financial risk and capital management

##### (a) Capital risk management

The Fund's objective when managing capital is to safeguard the ability to continue as a going concern, whilst providing returns for unitholders and benefits for other stakeholders and to maintain a capital structure to minimise the cost of capital.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

The capital structure of the Fund consists of cash and cash equivalents, interest-bearing loans and borrowings and contributed equity of the Fund (comprising contributed equity and retained earnings).

The Fund assesses the adequacy of its capital requirements, cost of capital, LvR and gearing (i.e. debt/equity mix).

The Fund continuously reviews its capital structure to ensure:

- Sufficient funds and financing facilities, on a cost effective basis, are available to assist the Fund's business; and
- Sufficient liquidity buffer is maintained.

The Fund can alter its capital structure by issuing new units.

### **(b) Financial risk management**

The Fund's activities expose it to a variety of financial risks, including:

- (i) credit risk
- (ii) liquidity risk
- (iii) market risk (including foreign exchange risk and interest rate risk)

The Fund seeks to minimise the effects of these risks by monitoring its exposure to these risks and assessments of market forecasts.

#### **(b)(i) Financial risk management - credit risk**

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the Fund. The Fund has exposure to credit risk on all financial assets included in its statement of financial position.

The Fund is exposed to credit risk from cash placed with a financial institution. This financial institution has a credit rating of AA- (Standard & Poor's).

Exposure to customer credit risk is also monitored. Woolworths Limited is a major tenant of the Fund representing greater than 90% of rent received. Woolworths credit rating is BBB (Standard & Poor's). Other tenants represent the remainder of rent received.

The Fund's exposure to credit risk is summarised in the following table:

	30 June 2019	30 June 2018
	\$'000	\$'000
Cash and cash equivalents	299	47
Receivables	225	275
	<b>524</b>	<b>322</b>

The maximum exposure of the Fund to credit risk as at 30 June 2019 is the carrying value of the financial assets in its statement of financial position.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

### (b)(ii) Financial risk management - liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund aims at having flexibility in funding by keeping sufficient cash and/or committed credit lines available whilst maintaining a low cost of holding these facilities. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The Fund manages liquidity risk through monitoring its net expected funding needs including the maturity of its debt portfolio. The Fund also manages liquidity risk by maintaining a liquidity buffer of cash and undrawn debt facilities.

The debt facility is a bank secured debt facility. Details of the debt facility, including debt facility available, are at note 7.

Refinancing risk, also part of liquidity risk, is the risk that the maturity profile of the debt makes it difficult to refinance maturing debt, and/or that the cost of refinancing exposes the Fund to potentially unfavourable market conditions at any given time. The Fund is exposed to refinancing risks arising from the availability of finance as well as the interest rates and credit margins at which financing is available. The Fund intends to manage this risk, where appropriate, by refinancing borrowings in advance of the maturity of the borrowing and by securing longer term facilities.

### Non-derivative financial instruments

The contractual maturities of the Fund's non-derivative financial liabilities at year end are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities including interest, margin, and line fees at the reporting date. Interest rates are based on the interest rates as at the reporting date.

	1 year or less \$'000	Between 1 to 3 years \$'000	Over 3 years \$'000	Total \$'000
<b>30 June 2019</b>				
Trade and other payables	504	-	-	504
Distribution payable	685	-	-	685
Performance fee liability	-	379	-	379
Borrowings	-	29,100	-	29,100
	<u>1,189</u>	<u>29,479</u>	<u>-</u>	<u>30,668</u>
<b>30 June 2018</b>				
Trade and other payables	444	-	-	444
Distribution payable	668	-	-	668
Performance fee liability	-	890	-	890
Borrowings	-	29,100	-	29,100
	<u>1,112</u>	<u>29,990</u>	<u>-</u>	<u>31,102</u>

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

---

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

### **(b)(iii) Financial risk management - market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Fund's financial performance or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters, while optimising the return.

#### **Market risk - foreign exchange risk**

The Fund has no foreign currency denominated assets or liabilities at the reporting date and therefore the Fund is not exposed to any significant foreign exchange risk.

#### **Market risk - interest rate risk**

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate due to changes in market interest rates.

The Fund is exposed to interest rate risk as it borrow funds at floating interest rates. This risk is managed through the use of interest rate swap contracts. Hedging activities are evaluated regularly. The Fund's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Exposure to cash and cash equivalents is limited to \$299,000 (30 June 2018: \$47,000).

#### *Interest rate swap contract*

The Fund's interest rate risk arises from borrowings and cash holdings. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates or from fixed to floating. The Fund had entered into an interest rate swap contract with a notional principal amount of \$28,000,000 which expired in June 2019. Under the interest rate swap contract, the Fund agreed with the other party to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to an agreed notional principal amount.

The Fund's secured debt facility is at floating rates. Borrowings with floating rates expose the Fund to cash flow interest rate risk. The Fund's preference up until June 2019 was to be protected from interest rate movements through appropriate risk management techniques. These techniques include using a floating to fixed interest rate swap. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The requirements under Australian accounting standards in respect of documentation, designation and effectiveness for hedge accounting cannot be met in all circumstances. As a result the Fund does not apply hedge accounting for any derivatives as at 30 June 2019.

The fair value of interest rate swap at the prior reporting date is determined by discounting the future cash flows using the forward market interest rate curve at reporting date.

The Fund's exposure to interest rate risk and the effective interest rates on financial assets and liabilities at reporting date are in the following table.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

	Interest Rate (floating)	1 year or less \$'000	Between 1 to 3 years \$'000	Over 3 years \$'000	Total \$'000
<b>30 June 2019</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	1.0%	299	-	-	299
Trade and other receivables	-	225	-	-	225
<b>Financial Liabilities</b>					
Trade and other payables	-	504	-	-	504
Performance fee liability	-	-	379	-	379
Borrowings	2.7%	-	29,100	-	29,100
Distribution payable	-	685	-	-	685
<b>Total net financial liabilities</b>		<b>665</b>	<b>29,479</b>	<b>-</b>	<b>30,144</b>
<b>30 June 2018</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	1.1%	47	-	-	47
Trade and other receivables	-	275	-	-	275
<b>Financial Liabilities</b>					
Trade and other payables	-	444	-	-	444
Performance fee liability	-	-	890	-	890
Borrowings	3.3%	-	29,100	-	29,100
Distribution payable	-	668	-	-	668
<b>Total net financial liabilities</b>		<b>790</b>	<b>29,990</b>	<b>-</b>	<b>30,780</b>

The Fund had no fixed derivatives at 30 June 2019. The Fund's maturity profile and the weighted average interest rate of the fixed derivatives (notional principal) held at 30 June 2018 (represented by an interest rate swap which expired in June 2019) by the Fund can be summarised below.

30 June 2019	June 2020
Interest rate swap (fixed) - \$'000	-
Average fixed rate - %	-
30 June 2018	June 2019
Interest rate swap (fixed) - \$'000	28,000
Average fixed rate - %	2.5%

### Sensitivity analysis – interest rate risk

The following sensitivity analysis shows the effect on profit/(loss) after tax and equity if market interest rates during the period had been 100 basis points higher/lower with all other variables held constant.

	Profit / loss after tax		Equity	
	100bp higher \$'000	100bp lower \$'000	100bp higher \$'000	100bp lower \$'000
<b>30 June 2019 - Effect of market rate interest movement</b>	<b>(288)</b>	<b>288</b>	<b>(288)</b>	<b>288</b>
30 June 2018 - Effect of market rate interest movement	(11)	11	(11)	11

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

### (c) Accounting classifications and fair values

The fair value of interest rate derivatives is determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observing market rates.

The Directors consider that the carrying amounts of financial assets and liabilities recognised at amortised cost in the financial statements approximate their fair values.

The Fund had no financial liabilities that were measured at fair value as at 30 June 2019. The following table represents financial liabilities that were measured and recognised at fair value as at 30 June 2018.

	30 June 2019	30 June 2018
	\$'000	\$'000
<b>Liabilities</b>		
Interest rate derivatives	-	171

#### *Fair value hierarchy*

The Fund is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement.

Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed can be subjective.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis of the use of observable inputs that require significant adjustments based on unobservable inputs.

There were no transfers between levels during the year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The interest rate swap held at 30 June 2018 is an interest rate derivative and is also a financial instrument not quoted in active markets. For the interest rate swap the Fund uses valuation techniques such as present value, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Interest rate derivatives are financial instruments that use valuation techniques with only observable market inputs and are included in Level 2 above.

The Fund does not have any Level 1 or 3 financial instruments. Details of level 3 assets (investment properties) during the financial period and details of unobservable inputs and sensitivity are set out in note 3.

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

### 12. Related party transactions

The Responsible Entity of SURF 1 is SCA Unlisted Retail Fund RE Limited (ABN 42 604 416 284) (SURF RE). SURF RE is part of the SCA Property Group. The SCA Property Group comprises Shopping Centres Australasia Property Group RE Limited (ABN 47 158 809 851) as responsible entity of Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788) (Retail Trust). All fees and charges from the Responsible Entity and its related parties are in accordance with the Product Disclosure Statement (PDS) dated 16 July 2015 and the Trust's constitution. Transactions with entities associated to SCA Property Group are disclosed below. Transactions with related parties have taken place at arm's length and in the ordinary course of business.

#### *(a) Investment management fees*

Investment management fees are 0.45% per annum of gross asset value payable monthly in arrears. During the period investment management fees of \$314,556 (excluding GST) were payable to Shopping Centres Australasia Property Operations Pty Limited (ACN 160 890 433) as the Investment Manager of SURF 1 (30 June 2018: \$310,224).

Total accrued investment management fees of \$25,827 (excluding GST) are recognised in trade and other payables in the statement of financial position (30 June 2018: \$26,733).

#### *(b) Base management fees*

Base management fees are 0.25% per annum of gross asset value payable monthly in arrears. During the period base management fees of \$174,753 (excluding GST) were payable to the Responsible Entity during the financial year (30 June 2018: \$172,347).

Total accrued base management fees of \$14,348 (excluding GST) are recognised in trade and other payables in the statement of financial position (30 June 2018: \$14,852).

#### *(c) Recharge expenses*

SURF RE and the Investment Manager have the right to recover from the Fund the expenses properly incurred by SURF RE or the Investment Manager in relation to the Fund. The Investment Manager is part of SCA Property Group. In practice the Fund has paid all such expenses directly.

#### *(d) Directors fees*

No fees were paid or are payable by SURF 1 to the directors of the Responsible Entity during the period. These costs are paid by SCA Property Group. Refer to note 16.

#### *(e) Related Party Unit Holdings and Distributions*

Holdings of units by related parties:

	30 June 2019	30 June 2018
	Units	Units
Shopping Centres Australasia Property Retail Trust	7,959,000	7,959,000

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

For the year ended 30 June 2019

The units held by the Shopping Centres Australasia Property Retail Trust rank pari passu with the other units on issue in SURF 1 and have been held by the Retail Trust since allotment (1 October 2015). The distributions paid or payable to the Retail Trust for the period are in the table below:

### 30 June 2019

Quarter ended	30 Sep 2018	31 Dec 2018	31 Mar 2019	30 Jun 2019
Number of units held	7,959,000	7,959,000	7,959,000	7,959,000
Distribution per unit - cents	2.10	2.10	2.10	2.10
Amount paid or payable - \$	167,139	167,139	167,139	167,139
Date paid or payable	16 Oct 2018	21 Jan 2019	23 Apr 2019	31 Jul 2019 <sup>1</sup>

<sup>1</sup> This distribution was declared on 18 June 2019 and the proposed payment date is 31 July 2019.

### 30 June 2018

Quarter ended	30 Sep 2017	31 Dec 2017	31 Mar 2018	30 Jun 2018
Number of units held	7,959,000	7,959,000	7,959,000	7,959,000
Distribution per unit - cents	2.05	2.05	2.05	2.05
Amount paid or payable - \$	163,160	163,160	163,160	163,160
Date paid or payable	16 Oct 2017	22 Jan 2018	20 Apr 2018	31 Jul 2018

The Fund did not hold any interests in related parties at the reporting date or throughout the current year.

### (f) Performance fee liability

The Investment Manager will be entitled to a performance fee of 20% of the portion of the outperformance of SURF 1 over an IRR of 10% per annum. SURF 1's performance to date has been an IRR of 15% which is in excess of 10%.

Applying appropriate calculations to reflect the estimated IRR over the likely life of SURF 1 including the likely disposal costs of the properties of SURF 1, a performance fee liability of \$379,000 has been recognised at 30 June 2019 (30 June 2018: \$890,000).

## 13. Distributions paid or payable

### 30 June 2019

Quarter ended	Payment date	Cents per unit	\$
30 September 2018	16 October 2018	2.10	684,600
31 December 2018	21 January 2019	2.10	684,600
31 March 2019	23 April 2019	2.10	684,600
30 June 2019	31 July 2019 <sup>1</sup>	2.10	684,600
<b>Total distributions (Ordinary)</b>		<b>8.40</b>	<b>2,738,400</b>

<sup>1</sup> This distribution was declared on 18 June 2019 and the proposed payment date is 31 July 2019.

### 30 June 2018

Quarter ended	Payment date	Cents per unit	\$
30 September 2017	16 October 2017	2.05	668,300
31 December 2017	22 January 2018	2.05	668,300
31 March 2018	20 April 2018	2.05	668,300
30 June 2018	31 July 2018	2.05	668,300
<b>Total distributions (Ordinary)</b>		<b>8.20</b>	<b>2,673,200</b>

# SCA Unlisted Retail Fund 1

## Notes to the Financial Statements

### For the year ended 30 June 2019

#### 14. Commitments and contingencies

The Trust has a distribution payable of \$684,600 as at 30 June 2019 (30 June 2018: \$668,300) which is expected to be paid on 31 July 2019.

As at 30 June 2019, the Fund has no other capital commitments, contingent liabilities or assets (30 June 2018: nil).

#### 15. Auditors remuneration

During the period, all amounts paid or payable to the auditor of the Fund, BDO East Coast Partnership, by SCA Unlisted Retail Fund 1 for the period were:

	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
Audit and review of the financial statements	29,500	28,750
Assurance and compliance services	3,000	3,000
	<b>32,500</b>	<b>31,750</b>

#### 16. Key management personnel

Key management personnel of the Responsible Entity are those persons having authority and responsibility for planning directing and controlling the activities of the Fund, directly or indirectly, including any Director.

Key management personnel are employed by a related company to the Fund, Shopping Centres Australasia Property Operations Pty Limited. No compensation is paid by the Fund to any of the key management personnel of the Responsible Entity.

#### 17. Events after the reporting period

A final distribution for the period to 30 June 2019 of 2.10 cents per unit was declared on 18 June 2019 and is expected to be paid on 31 July 2019. This distribution has been reflected as a payable in the statement of financial position as at 30 June 2019. Refer to note 13 and 14 for details.

During July 2019 SURF RE entered into a conditional contract to sell Burwood for \$12,000,000 and a put option to sell Inverell for \$15,000,000. Burwood's carrying value at June 2019 was \$11,000,000 and was independently valued in July 2019 for \$11,000,000. Inverell's carrying value at 30 June 2019 was \$14,000,000 and was independently valued in June 2019 for \$14,000,000. The conditional contracts are cross conditional and both properties must at the election of SURF RE be sold as a package for the total consideration of \$27,000,000. The terms include a 10% deposit on each property. SURF RE has a put option on Inverell with an exercise period commencing in October 2019 and closing in November 2019. Therefore, the financial settlement can be deferred until November 2019. The contracted prices are in total \$2,000,000 above the total carrying values of Inverell and Burwood as at 30 June 2019 which are \$14,000,000 and \$11,000,000 respectively (\$25,000,000 in total). It is considered that the fair value of the two properties is most appropriately reflected at the reporting date with reference to the independent valuations obtained in June and July 2019 despite the conditional contracts being entered into after the balance date for the sale of these properties.

The Directors are not aware of any other matters or circumstance that have arisen since 30 June 2019 that have significantly affected or may significantly affect the operations of SURF 1, the result of those operations, or state of SURF 1's affairs in future financial periods.

\* \* \*

# SCA Unlisted Retail Fund 1

## Directors' Declaration

For the year ended 30 June 2019

---

In the opinion of the Directors of SCA Unlisted Retail Fund RE Limited, the Responsible Entity of SCA Unlisted Retail Fund 1 (SURF 1):

- (a) The attached financial statements and notes are in accordance with the Corporations Act 2001, including;
  - (i) giving a true and fair view of SURF 1's financial position as at 30 June 2019 and of its performance for the financial year then ended; and
  - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations), the Corporations Regulations 2001, and other mandatory professional reporting requirements;
- (b) There are reasonable grounds to believe that SURF 1 will be able to pay its debts as and when they become due and payable.

The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

  
Director  
Sydney  
23 July 2019

## INDEPENDENT AUDITOR'S REPORT

To the members of SCA Unlisted Retail Fund 1

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of SCA Unlisted Retail Fund 1 (the Fund), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of SCA Unlisted Retail Fund 1, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Fund's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of SCA Unlisted Retail Fund RE Limited, as responsible entity for SCA Unlisted Retail Fund 1, would be in the same terms if given to the directors of the responsible entity as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

The directors of the responsible entity are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors' Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of the directors for the Financial Report**

The directors of the responsible entity of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the responsible entity are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the responsible entity either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf)

This description forms part of our auditor's report.

**BDO East Coast Partnership**

BDO

A handwritten signature in black ink, appearing to read 'Ian Hooper', written over a horizontal line.

Ian Hooper  
Partner

Sydney, 23 July 2019